

## OTHER MATTERS

I draw to the following matters that relate to my responsibilities in the audit of the financial statements

### Internal controls

15. Section 62 (1)(c)(1) of the MFMA states the accounting officer must ensure that the municipality has an maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the efficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorized according to the five components of an effective system of internal control. In certain instances deficiencies exist more than one internal control component.

Reporting item	Control environment	Risks Assessment	Control activities	Information and communication	Monitoring
Debtors					
Creditors					

Control environment: establish the foundation for the internal control system by providing fundamental discipline and structure for financial reporting

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensures that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process, or the application of independent methodologies like customized procedures standard checklist, by employees within a process

### Non-compliance with applicable legislation

#### Municipal Finance Management Act

16. In accordance with Section 29 (3) of the MFMA No 56 of 2003, an adjustment budget was not passed within 60 days after the incurring of unauthorized expenditure, in order for the council to ratify the expenditure.
17. MFMA circular no 34: section 1 was not adhered to, as contracts awarded in excess of R100 000 were not reported to National Treasury as required.



## Division of Revenue

18 In accordance with section 71 of the DORA for the period June 2008, the accounting officer of the municipality did not submit to national treasury, the electronic or signed returns on its conditional grant spending in terms of section 31(2)

## Supply chain management

19 In accordance with section 12(1) (a) the municipality did not follow the required range of supply chain management (SCM) processes to include tenders, quotations, auctions, and other types of competitive bidding.

## Matters of governance

20. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows

Matter of governance	Yes	No
• The municipal had an audit committee in operation throughout the financial year	✓	
• The audit committee operates in accordance with approved written terms of reference	✓	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA	✓	
<b>Internal audit</b>		
• The municipality had an internal audit function in operation throughout the financial year	✓	
• The internal audit function operates in terms of an approved internal audit plan.		✓
• The internal audit function substantially fulfilled its responsibilities for the as set out in section 165(2) of the MFMA.		✓
<b>Other matters of governance</b>		
• The annual function statements were submitted for audit as per the legislated deadlines (Section 126 of the MFMA)	✓	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report		✓
• The financial statements submitted for audit were not subject to material amendments resulting from the audit		✓
• No significant difficulties were experienced during the audit concerning the delays of the unavailability of expected information and / or the unavailability of senior management		✓
• The prior year's external audit recommendations have been substantially implemented.		✓
<b>Implementation of Standards of Generally Recognized Accounting Practice (GRAP)</b>		
• The municipality submitted in implementation plan , detailing progress towards full compliance with, GRAP, to the National Treasury and the relevant provisional treasury before 30 October 2007		✓
• The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		N/A
• The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provisional before 31 March 2008		✓



## **Unaudited supplementary schedules**

21. The supplementary information set out in appendix A to F does not form part of the financial statements and is presented as additional information. I have not audited this schedule and accordingly do not express an opinion thereon.

## **OTHER REPORTING RESPONSIBILITIES**

### **REPORT PERFORMANCE INFORMATION**

22. I was engaged to review the performance information.

#### **Responsibility of the accounting officer for the performance information**

23. In terms sections 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government Municipality Systems Act, 2000 (Act No 32 of 2000) (MFA).

#### **Responsibility of the Auditor-General**

24. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 616 of 2008 and section 45 of the Municipal Systems Act No 32 of 2000.
25. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures selected depend on the auditors judgment.
26. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below

#### **Audit findings (performance information)**

## **Non-compliance with regulatory requirements**

27. In accordance with section 38 (a) of the MSA, the municipality could not provide a detailed description of the process followed for the municipality established a performance information system that is:
- commensurate with its resources,
  - best suited to its circumstances and
  - in line with the priorities, objectives, indicators and targets contained in its integrated development plan.
28. In accordance with section 38 ( c) of the MSA, the municipality could not provide a portfolio of evidence to support the final performance ratings to provide assurance that the municipality administered its affairs in an economical, effective, effective, efficient and accountable manner.
29. No performance information report was presented for an annual audit in terms of section 45(b) of the MSA by the date of my report.

## **Appreciation**

30. The assistance rendered by the Umhlabuyalingana Municipality during the audit is sincerely appreciated.

Pietermaritzburg 28 November 2008



**UMHLABUYALINGANA MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2008**

**GENERAL INFORMATION**

**Members of the Executive Committee**

Mayor : Councilor D. A . Ncube  
Deputy Mayor : Councilor T. Mthembu  
Councilors (Exco) : TS Mkhombo  
: NR Mthethwa  
: MS Mabika

**GRADING OF LOCAL AUTHORITY**

Grade 2

**AUDITORS**

Auditor General

**BANKERS**

First National Bank of SA Limited

**REGISTER OFFICES**

**Municipal Offices**

Private Bag x 901  
KWANGWANASE  
3973

Telephone: (035) 5920680

Fax : (035) 5920672

**MUNICIPAL MANAGER**

Rev. S.E. Manqele

**CHIEF FINANCIAL OFFICER**

Mr. M.M. Zungu,

**APPROVAL OF FINANCIAL STATEMENTS**

The annual financial statements set out on pages 1 to 22 were approved by the Municipal manager on the 31 August 2008.

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**MUNICIPAL MANAGER**

**Rev. S.E. Manqele**

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**CHIEF FINANCIAL OFFICER**

**M.M. Zungu**

## **UMHLABUYALINGANA MUNICIPALITY**

### **ANNUAL FINANCIAL STATEMENTS** **for the year ended 30 June 2008**

#### ACCOUNTING POLICIES

##### 1. BASIS OF PRESENTATION

- 1.1 The financial statement have been prepared in accordance with the historical cost so as to conform to the standards laid down by the Institute of Municipal Officers in its Code of Accounting practice (1997) and Report on Published Annual Financial Statements (second Edition January 1996)
- 1.2 The financial statements are prepared on a historical cost basis adjusted for fixed assets as fully detailed in accounting policy note 3. The accounting policies are consistent with those applied in the previous years except if otherwise indicated.
- 1.3 The financial statements are prepared on the accrual basis as follows:-
- \* Income is accrued when measurable and available to finance activities.
  - \* Expenditure is accrued in the year in which it is incurred.

##### 2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

##### 3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

##### 4. CONSOLIDATION

The balance sheet includes general services, Capital Development Fund, Reserves and Provisions

##### 5. FIXED ASSETS

Fixed Assets are stated at their historical cost while they are in existence and fit for use..

##### 5.1 DEPRECIATION

The balance shown against the heading Loans Redeemed and other Capital Receipt in notes to financial statement is tantamount to a provision of depreciation , how ever certain structural differences exist.

###### *Asset may be acquired through:*

\*Appropriations from income where the full cost of the assets form an immediate and direct charge against operating income, therefore it is unnecessary to make any further provision for depreciation.

\*Grants or donations, where the amount representing the value of such grant or donation is immediately credited to the loans redeemed and other capital receipts account.



## UMHLABUYALINGANA MUNICIPALITY

### ANNUAL FINANCIAL STATEMENT FOR THE ENDED 30 JUNE 2008

#### ACCOUNTING POLICIES CONTINUED

#### 6. FUNDS AND RESERVES

##### 6.1 CAPITAL DEVELOPMENT FUND

The Local Authorities Ordinances requires a minimum contribution of 3% of the defined income of the municipality for the immediately preceding financial year to be contributed to this fund.

- 6.2 Unexpended grants received both conditional and unconditional, are transferred from income statement to reserves. The grants are released from reserves to the income statement when they have been expended.

#### 7. INVESTMENTS

##### 7.1 Financial Instruments

Financial instruments, which includes short term deposits invested in registered commercial banks are stated at cost.

Surplus funds are invested at a low risk Banks. Interest earned is credited to operating income and to the Capital Development Fund.

#### 8. INCOME RECOGNITION

The municipality relies on grants received from National, Provincial government and District Municipality and other income to finance its operations. No rates or service charges are levied. Grants are credited to the income statement to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

#### 9. PROVISIONS

provisions are recognised when the municipality has a present or constructive obligation as a results of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate

##### 9.1 STAFF LEAVE ENCASHMENT

The provision is based on actual leave owing to staff members at the Balance Sheet date.

##### 9.2 AUDIT FEES

The provision is calculated at 1% of the current and capital expenditure of the current financial year excluding capital expenditure funded from conditional grants.

**Refer Local Government Audit Circular No. 1 of 2000.**

##### 9.3 DOUBTFUL DEBT

The provision is based on the assessment of uncertainty with regard to the recoverability of the debt

##### 9.4 PERFORMANCE BONUSES

The provision is based at 15% of the remuneration package of qualifying employees and where bonuses are paid before the date of issue of financial statement the provision is measured at actual bonuses paid.

**UMHLABUYALINGANA MUNICIPALITY****BUDGET ANALYSES ( ACTUAL VS BUDGET)**

	FINAL BUDGET	ACTUALS	R VARIANCE
<b>RECEIPTS</b>	<b>38,969,807</b>	<b>26,709,266</b>	<b>(12,260,541)</b>
GRANTS AND SUBSIDIES	31,699,400	16,841,038	(14,858,362)
RESERVES AND SAVINGS	3,230,827	7,435,994	4,205,167
OTHER INCOME	4,039,580	2,432,234	(1,607,346)
<b>EXPENDITURE</b>	<b>37,668,744</b>	<b>16,202,917</b>	<b>21,465,827</b>
COUNCILLOR REMUNERATION	3,336,068	1,544,924	1,791,144
SALARIES, WAGES AND ALLOWANCES	9,603,425	4,997,848	4,605,577
GENERAL EXPENSES	9,706,337	4,164,682	5,541,655
REPAIRS AND MAINTENANCE	732,000	703,476	28,524
CONTRIBUTIONS / RESERVES	94,914	-	94,914
CAPITAL EXPENDITURE	14,196,000	4,791,987	9,404,013
<b>SURPLUS/ (DEFICIT)</b>	<b>1,301,063</b>	<b>10,506,349</b>	



**UMHLABUYALINGANA MUNICIPALITY**  
**APPENDIX F**  
**STATISTICAL INFORMATION AS AT 30 JUNE 2008**

	2006/2007	Valuation date	2005/2006	Valuation date
<b>General statistics</b>				
Population	140964	2001	140964	2001
Registered voters	59054	2006	48000	2004
Surfacing (km)	3698m2		3698m2	
Valuations				
- Taxable (R'000)	0.00		0.00	
- Non-taxable (R'000)	0.00		0.00	
- Residential (R'000)	0.00		0.00	
- Commercial (R'000)	0.00		0.00	
Valuation date: 1 July 2000				
Assessment rate				
- Basis (per rand)	0.00		0.00	
- Discount: residential	0%		0%	
Number of employees	39.00		34.00	

**The above statistical information is as per Statistics South Africa's register for the year 2001**



## INCOME

### BUDGET 2007/2008

INCOME	DEPARTMENTS								
INCOME TYPE	COUNCIL	MANAGER	FINANCE	CORPORATE	TECHNICAL	LIBRARY	COMMUNITY	LED	TOTAL
GRANTS AND SUBSIDIES		18,463,230	660,000		14,861,000	-	500,000	1,255,323	35,739,553
OTHER			3,124,000			8,200	10,000		3,142,200
RESERVES AND SERVINGS		-							-
									-
									-
									-
	-	18,463,230	3,784,000	-	14,861,000	8,200	510,000	1,255,323	38,881,753

### ACTUALS 2007/2008

INCOME TYPE	COUNCIL	MANAGER	FINANCE	CORPORATE	TECHNICAL	LIBRARY	COMMUNITY	LED	TOTAL
GRANTS AND SUBSIDIES		20,557,549	500,000		7,557,854	75,900		1,146,513	29,840,926
OTHER INCOME			144,964			4,085			149,049
RESERVES AND SERVINGS		4,302,546							4,302,546
									-
									-
	-	24,860,095	644,964	-	7,557,854	82,985	-	1,146,513	34,293,561
Under/(over) Spending		(6,398,045)	1,139,036		7,495,126	(74,785)	510,000	108,810	4,888,192
Actual under/(over) Spending	40.7%	34.85%	82.95%	EDN/0	48.14%	417.07%	100.00%	8.07%	11.80%